Collaborative Strategies for Managing Costs
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Speech Summary

The world aviation community has reached a consensus about the value of technical standards, openly agreed upon and widely shared. There is also a consensus among aviation service providers about the necessity to lower costs and provide value. The development of technical standards is an important way for us to do both.

The FAA's Air Traffic Organization (ATO) has developed an overall strategy of cost management designed to strip away the wasteful and non-essential, uncover the real costs of our operations, and find a way to balance costs with revenues. In this aggressive effort to contain our costs, we recognize that technical standards can make a significant contribution.

ATO is now well along in a transformational process that will make us more efficient, more responsive to our customers, and more fiscally stable.

We have created a single, flatter organization – tightly aligned around our services and products. We are evaluating all our activities, and eliminating those that provide little or no value. And we are developing models and metrics to better manage our finances, improve our services, allocate our resources, and plan for the future.

These changes will improve our efficiency but, in the end, the ATO must eliminate the growing gap between its revenues and its costs.

Most of our budget comes from aviation excise taxes. While our revenue is down 15% from 2000, our operating costs are rising about five percent each year. A serious funding gap could grow steadily worse if escalating costs continue to outpace our gains in revenue.

Ongoing analyses have helped us better understand what drives our costs.

- Air traffic operating costs vary with facility size; however maintenance costs are largely fixed. What varies, depending on the volume of air traffic, is the number of controllers that are needed.

- Longer flights (over 2,500 miles) require less service but earn more revenue. For shorter flights, costs increase slightly with distance because more facilities are involved in providing services. Flights under 700 miles represent more than 60% of our costs but provide less than 30% of our revenue.

These analyses do not take into account the future impact of the expansion of low cost carriers, new security demands, the increasing number of regional jets and general aviation aircraft, and the possible introduction of micro-jets.

Changes in system and airline capacity are inter-related, and both affect industry profitability and the ability of ATO to cover the costs of its services. Business models we're developing will help us understand these complex interactions and enable us to deal more effectively with the factors that can limit demand: weather delays, congestion, pricing, frequency of service, access to service, and convenience.

The development of technical standards is another important strategy for reducing costs by eliminating wasteful duplication of effort and encouraging a globally competitive market.

Previous efforts in standardization under ICAO auspices have demonstrated their benefits. It has been estimated that avionics standardization already saves the airline industry nearly $300 million each year.

There are three categories of standards that can reduce our costs:

- Engineering standards yield savings by creating a larger market for products, reducing the need to maintain large inventories of spare parts and supporting global interoperability in air traffic control operations.

- Interface standards promote flexible modular integration and saves money by curtailing the expensive customization of equipment.

- Operating standards allows us to spend less on software development, cuts down on certification requirements that duplicate one another, and trim our training costs and the expense of specialized support.

The growing need for standards creates an opportunity for EURO CAE, RTCA and others to play an increasingly important role in defining system and operating requirements. At a time when all of us are facing increasing pressure to reduce costs, the adoption of wide-ranging technical standards is one of the most promising areas to pursue.

Looking ahead, standardization will allow for seamless operations and eases the way to the integration and consolidation within the global aviation industry that is certain to come.